

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Iosco County Medical Care Facility	County Iosco
Audit Date December 31, 2005	Opinion Date March 1, 2006	Date Accountant Report Submitted To State: March 23, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature 			

Iosco County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2005**

Iosco County Medical Care Facility

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Independent Auditor's Report

To the Iosco County Department of
Human Services Board
Iosco County Medical Care Facility

We have audited the accompanying balance sheet of Iosco County Medical Care Facility (a component unit of Iosco County, Michigan) (the "Facility") as of December 31, 2005 and 2004 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iosco County Medical Care Facility at December 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

March 1, 2006

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Iosco County Medical Care Facility

Balance Sheet

	December 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,435,856	\$ 2,499,654
Resident accounts receivable (Note 3)	387,934	356,519
Taxes receivable	441,868	421,829
Other current assets	73,717	64,707
Total current assets	3,339,375	3,342,709
Assets Limited as to Use (Note 2)	1,125,967	1,690,531
Property and Equipment (Note 4)	4,799,454	4,460,280
Total assets	<u>\$ 9,264,796</u>	<u>\$ 9,493,520</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 131,593	\$ 89,476
Funds held for residents	6,932	6,738
Accrued liabilities and other:		
Accrued compensation and related liabilities	89,620	80,781
Accrued compensated absences	195,058	179,241
Deferred revenue - Proportionate share program	-	21,789
Deferred tax revenue	441,868	421,829
Other accrued liabilities	176,907	298,030
Total current liabilities	1,041,978	1,097,884
Net Assets		
Invested in capital assets - Net of related debt	4,799,454	4,460,280
Unrestricted	3,423,364	3,935,356
Total net assets	8,222,818	8,395,636
Total liabilities and net assets	<u>\$ 9,264,796</u>	<u>\$ 9,493,520</u>

Iosco County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2005	2004
Operating Revenue		
Net service revenue	\$ 4,724,572	\$ 4,979,447
Other operating revenue	42,551	23,571
Proportionate share reimbursement	132,144	115,064
Total operating revenue	4,899,267	5,118,082
Operating Expenses		
Salaries	2,889,673	2,870,624
Other expenses	2,687,844	2,432,450
Total operating expenses	5,577,517	5,303,074
Operating Loss	(678,250)	(184,992)
Other Income		
Interest income	95,114	30,912
Contributions	1,927	2,827
Tax revenue	408,391	393,219
Total other income	505,432	426,958
(Decrease) Increase in Net Assets	(172,818)	241,966
Net Assets - Beginning of year	8,395,636	8,153,670
Net Assets - End of year	\$ 8,222,818	\$ 8,395,636

Iosco County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2005	December 31, 2004
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 4,692,675	\$ 5,556,149
Cash paid to employees and suppliers	(5,242,548)	(5,271,982)
Cash received from Proportionate Share Program	110,355	104,993
Other operating receipts	42,552	23,571
Net cash (used in) provided by operating activities	(396,966)	412,731
Cash Flows from Noncapital Financing Activities		
Resident trust deposits (withdrawals)	194	(1,656)
Property taxes	408,391	393,219
Other	1,927	2,827
Net cash provided by noncapital financing activities	410,512	394,390
Cash Flows from Investing Activities - Interest received	95,114	30,912
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	(737,022)	(104,596)
Net (Decrease) Increase in Cash and Cash Equivalents	(628,362)	733,437
Cash and Cash Equivalents - Beginning of year	4,190,185	3,456,748
Cash and Cash Equivalents - End of year	<u>\$ 3,561,823</u>	<u>\$ 4,190,185</u>
Balance Sheet Classification of Cash		
Current assets	\$ 2,435,856	\$ 2,499,654
Assets limited as to use	1,125,967	1,690,531
Total cash	<u>\$ 3,561,823</u>	<u>\$ 4,190,185</u>

Iosco County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2005	December 31, 2004
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (678,250)	\$ (184,992)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	397,848	236,406
Changes in assets and liabilities:		
Resident accounts receivable	(31,415)	87,215
Other current assets	(9,010)	(13,256)
Increase in accounts payable	42,117	46,693
Accrued compensation	24,656	37,486
Deferred revenue	(21,789)	(10,071)
Other accrued liabilities	(121,123)	213,250
Net cash (used in) provided by operating activities	<u>\$ (396,966)</u>	<u>\$ 412,731</u>

There were no significant noncash investing, capital, and financing activities for 2005 and 2004.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies

Iosco County Medical Care Facility (the "Facility") is a component unit of the County of Iosco (the "County"). The financial statements of the Facility are included in the County's basic financial statements.

The Facility is an 83-bed, long-term, medical care unit owned and operated by Iosco County. It is governed by the Iosco County Department of Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the county budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Assets Limited as to Use - Assets limited as to use include assets set aside by the board of trustees for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes.

Property and Equipment - Property and equipment amounts are recorded at historical cost. Depreciation is computed on the straight-line method. Costs of maintenance and repairs are charged to expense when incurred.

Sick and Vacation Pay - Sick and vacation pay are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Assets - Net assets are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Patient Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of patients. The liability for funds held for residents on the balance sheet represents patient trust fund deposits.

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid patient day that was approved by the State during that month. M.O.E. expense amounted to \$49,846 and \$56,266 for the years ended December 31, 2005 and 2004, respectively, was paid by the Facility, and is included in operating expenses.

Taxes Receivable/Deferred Tax Revenue - Taxes are levied on December 1 and are payable on February 15. The cities and townships within the County bill and collect the property taxes for the County. County property tax revenue is recognized when levied. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations.

In 2002, the voters of Iosco County approved a levy annually up to \$0.46 per \$1,000 of assessed valuation for the purpose of general operations of the Facility.

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	Percent	
	2005	2004
Medicaid	75	77
Medicare	10	9

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for inresident routine service costs on a per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Proportionate Share Reimbursement Program - During the years ended December 31, 2005 and 2004, the Facility participated in this program sponsored by the State of Michigan.

In 2005, this program was discontinued by the State. The Facility received one payment in June 2005. The transaction was recorded into revenue in relation to the State fiscal year ended September 30, 2005.

In 2004, two transactions were completed. The first transaction in June was recorded in revenue in relation to the State fiscal year ended September 30, 2004. The second transaction in October was for the State fiscal year ended September 30, 2005 and therefore was recognized one quarter in revenue and three quarters in deferred revenue. The first transaction included an amount equal to approximately 3 percent of the annual Medicaid reimbursement in lieu of the normal administrative adjustment or inflation factor.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2005		2004	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County treasurer	\$ 2,422,694	\$ 1,125,967	\$ 2,486,683	\$ 1,690,531
Bank	13,162	-	12,971	-
Total	<u>\$ 2,435,856</u>	<u>\$ 1,125,967</u>	<u>\$ 2,499,654</u>	<u>\$ 1,690,531</u>

Cash - County Treasurer - These funds were under the control of the County treasurer, who deposited these funds with a bank.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility's deposits and investments are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility funds as these funds are only a portion of the total County deposits.

Note 3 - Accounts Receivable

The details of resident accounts receivable are as follows:

	2005	2004
Resident accounts receivable	\$ 500,677	\$ 475,816
Uncollectible accounts	<u>(112,743)</u>	<u>(119,297)</u>
Net resident accounts receivable	<u>\$ 387,934</u>	<u>\$ 356,519</u>

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 3 - Accounts Receivable (Continued)

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2005	2004
Medicare	9	15
Medicaid	53	50
Other payors	38	35
Total	100	100

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2005 are summarized below:

	January 1, 2005	Additions	Transfers	December 31, 2005	Depreciable Life - Years
Building	\$ 5,016,121	\$ 648,539	\$ 28,500	\$ 5,693,160	10-40
Equipment	1,485,045	88,483	-	1,573,528	5-20
Construction in progress	28,500	-	(28,500)	-	
Total	6,529,666	737,022	-	7,266,688	
Less accumulated depreciation:					
Building	1,100,330	300,189	-	1,400,519	
Equipment	969,056	97,659	-	1,066,715	
Total	2,069,386	397,848	-	2,467,234	
Net carrying amount	\$ 4,460,280	\$ 339,174	\$ -	\$ 4,799,454	

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 4 - Property and Equipment (Continued)

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	January 1, 2004	Additions	Retirements	December 31, 2004	Depreciable Life - Years
Building	\$ 4,991,892	\$ 33,952	\$ (9,723)	\$ 5,016,121	10-40
Equipment	1,452,401	42,144	(9,500)	1,485,045	5-20
Construction in progress	-	28,500	-	28,500	
Total	6,444,293	104,596	(19,223)	6,529,666	
Less accumulated depreciation:					
Building	978,529	131,524	(9,723)	1,100,330	
Equipment	873,674	104,882	(9,500)	969,056	
Total	1,852,203	236,406	(19,223)	2,069,386	
Net carrying amount	\$ 4,592,090	\$ (131,810)	\$ -	\$ 4,460,280	

Note 5 - Defined Benefit Multiple Employer Pension Plan

As disclosed in Note 1, the Facility is a component unit of Iosco County. Iosco County, including the Facility, participates in the Michigan Municipal Employees' Retirement System. The Michigan Municipal Employees' Retirement System (the "System") is an agent multiple-employer defined benefit pension plan that covers all employees of the County. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. This information can be requested by writing to:

Municipal Employees' Retirement System of Michigan
447 N. Canal Road
Lansing, Michigan 48917 or by calling (800) 767-6377

The obligation to contribute to and maintain the System for these employees was established by negotiations with the County's competitive bargaining units, and requires a contribution from the employees of 3 percent of the first \$4,200 of annual compensation and 5 percent of portions over \$4,200. The Facility's contribution requirement is actuarially determined and is equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

Facility contributions to the plan for the years ended December 31, 2005, 2004, and 2003 were \$212,574, \$221,360, and \$156,817, respectively.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 6 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims, workers' compensation, and employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There were no known outstanding or pending claims at December 31, 2005 and 2004.

Additional Information



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To the Iosco County Department of
Human Services Board
Iosco County Medical Care Facility

We have audited the financial statements of Iosco County Medical Care Facility as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

March 1, 2006

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Iosco County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2005	2004
Skilled Nursing Services		
Daily room revenue:		
Medicaid	\$ 3,647,496	\$ 4,059,858
Medicare	498,184	452,721
Private pay and other	750,144	746,689
Total daily room revenue	4,895,824	5,259,268
Ancillary revenue:		
Pharmacy	117,178	188,563
Therapy services	230,548	186,717
Other ancillary services	14,172	16,854
Total ancillary revenue	361,898	392,134
Total skilled nursing services revenue	5,257,722	5,651,402
Revenue Deductions		
Provision for contractual discounts	(518,886)	(660,174)
Bad debt expense	(14,264)	(11,781)
Net Service Revenue	\$ 4,724,572	\$ 4,979,447

Iosco County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2005			2004
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,063,650	\$ 1,063,650	\$ 1,001,511
Administration	312,956	244,220	557,176	599,313
Plant operations	84,743	55,643	140,386	142,945
Utilities	-	185,251	185,251	163,238
Laundry	64,566	27,963	92,529	95,828
Housekeeping	195,017	42,326	237,343	231,333
Dietary	246,653	221,247	467,900	460,584
Diversional therapy	89,259	5,410	94,669	100,142
Other ancillary services	-	32,129	32,129	39,371
Therapy services	99,169	24,787	123,956	108,539
Pharmacy	-	143,466	143,466	90,373
Nursing	1,797,310	193,742	1,991,052	1,977,013
Other services	-	316	316	212
Depreciation	-	397,848	397,848	236,406
Maintenance of effort	-	49,846	49,846	56,266
2005 total	\$ 2,889,673	\$ 2,687,844	\$ 5,577,517	
2004 total	\$ 2,870,624	\$ 2,432,450		\$ 5,303,074